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ECONOMIC COSTS OF WAR—DISCUSSION

GEORGE E. BARNETT: In any consideration of the cost of the war, the first desideratum is to secure clearly defined and useful statistical concepts. In Mr. Rossiter's very interesting paper, as in much of the current discussion, considerable use is made of "national wealth" as a measure of the ability of a country to bear the cost of a war. He compares, for example, national debts and national wealth, aggregate national wealth at the time of the Napoleonic Wars and at present, etc. Such comparisons seem to me to be misleading, whether the question considered is the ability of a nation to finance a war or to bear the burden of a war debt. In both cases the more valuable comparison would be with national income. The proposition that the burden of a war debt is best measured by national income appears to be generally accepted. I shall, therefore, confine my remarks to the question: How far is national wealth an index of ability to finance a war?

There are three methods by which a nation may melt down its wealth into forms suitable for war consumption:

1. It may sell its gold and its holdings of property in other countries. Gold is the only form of goods for which a foreign market is always assured at a fixed price. It would be interesting to know how far the accumulations of gold in the warring countries have been made with a view to monetary effect and how far with a view to the possibility of exchange for goods. There are two limitations on the liquidation of property in other countries. In the first place, there must be purchasers outside the country at war. This involves, of course, that in the buying country there must be available surplus income. The second condition for realizing on this form of national wealth is the ability to secure goods from other countries. The control of the seas has secured for the Allies in this war the power thus to liquidate part of their national wealth. In smaller degree, the Central Powers have been able to secure from contiguous states by the sale of foreign securities supplies and necessities of various kinds.

2. The second method by which a country may turn part of the national wealth to war uses is through the sale to foreign purchasers of rights to wealth within the country at war. The necessary conditions for this form of liquidation are the same as in the preceding case,—foreign purchasers and access to foreign goods. There is also another factor which may be of considerable importance, that is, the familiarity of the foreign purchaser with the property offered for sale. If the selling country has been a lending country before the war, the power

to dispose of such property would be less since the capitalists of other countries would be unfamiliar with the property to be sold. English railroad shares could be sold less readily than the shares of American railroads. The United States could probably realize on a considerable part of its national wealth by sale to capitalists in other countries who have long been accustomed to buy American stocks and bonds.

In both the cases so far considered the possibility of realizing on national wealth has been greatly increased in modern times by the extended use of the corporation as a form of business organization and the establishment of international markets for shares and bonds. But a very great part of the national wealth is not owned by corporations, and for the issues of many corporations there is no established foreign market. A foreign market for such property as land, houses, and small business establishments, which represent a large proportion of the national wealth, could be established only with great difficulty in the midst of war.

3. The third method by which the wealth of a country may be liquidated for war uses is through depreciation. To the extent that capital goods and consumers' goods are not kept up, the wealth which they represent returns to the owner and may be spent on war. This form of liquidation could be carried on entirely without foreign trade. Depreciation, however, has definite limits as a means of reassuming control over wealth and it is inconceivable that any large amount could thus be liquidated without entailing an insufferable loss of national income.

The popularly accepted opinion that it is possible to convert national wealth entirely and immediately into the sinews of war grows out of an analogy with individual wealth. A capitalist can ordinarily convert his wealth into any form he may desire. It is assumed that a nation can similarly convert its wealth. It is obvious, however, that the purchaser can only pay with income or by the sale of other wealth.

From the foregoing considerations, the conclusion may be drawn that the availability of national wealth for war financing depends upon a number of factors: (1) the extent of access to foreign sources of supply; (2) the relative part of the national wealth invested in foreign property; (3) the amount of surplus income in foreign countries;

4. The familiarity of foreign investors with property in the country at war.

These factors vary widely between country and country in any particular war and also between one historical period and another. It seems clear, therefore, that statistics of total national wealth have little importance in any study of war financing.

E. W. KEMMERER: The pictures drawn by Professor Clark and Mr. Rossiter of the economic costs of the war are dark ones. Figures Mr. Rossiter cites from Mr. Crammond,¹ together with the estimates of Leroy-Beaulieu,² and Yves Guyot,³ and the practical certainty of the continuation of the war expenses for some months at least, make it appear that the economic costs of this war will far exceed those of all the European and North American wars of the nineteenth century. However, I do not intend to repaint these pictures in black, but rather to devote the ten minutes at my disposal to the pleasanter task of stating reasons why the pictures are not quite so black as many would have us think.

Living Costs of Soldiers.—The living costs of the twenty to twenty-five million troops in the field, aside from the costs of military supplies and the value of other property destroyed for military purposes, are *relatively* small as compared with times of peace. Food is simple and is prepared in the most efficient ways. Uniformity and large scale production are the rule everywhere. Soldiers in time of war do not order their meals *à la carte*. Soups are prepared by the thousands of gallons, bread and beans by the ton. Similar practices exist for clothing. In such matters as food and clothing, then, the European battle fields today are vast socialistic camps, the functioning of which the strong pressure of military and financial necessity makes efficient.

Little, moreover, is spent at the front for the luxuries of life, except by a few officers. This for most of the soldiers is a time of austere living. Expensive theaters, banquets, pleasure trips, and the like are not privileges of many mobilized troops. Their pleasures are simple, inexpensive, and quickly improvised.

Economic Conditions of Those Who Stay at Home.—If one turns from the living expenses of the men in the field to those of their families back home he finds a like reduction as measured in the quantities of goods consumed. Most families in belligerent countries are living with a simplicity they have never known before. The bread winner is away and the family income is curtailed. Needs of government, and the feelings of patriotism that a struggle for national existence arouses, instill habits of strict economy. In France and Germany today extravagant living is closely akin to treason. The British authorities

¹ Cf. Edgar Crammond; "The Cost of the War" (with discussion), *Journ. Roy. Stat. Soc.*, May, 1915, pp. 361-413.

² Paul Leroy-Beaulieu, *Recherches économiques sur les Guerres contemporaines*.

³ Yves Guyot, "The Waste of the War and the Trade of Tomorrow," *Nineteenth Century*, Vol. 76 (1914), pp. 1193-1206.

and press are trying to make it so in England. Then, too, in nearly every home the present is a time of great anxiety and of mourning. Anything but simple austere living seems out of place.

Let us now turn to conditions of economic production in Europe away from the battle fields. The first thing to note is that the production of all sorts of army supplies, such as clothing, shoes, etc., is on a much larger scale than in time of peace, and that division of labor and machine production are utilized to the extreme limits of efficiency. When once the painful readjustments incident to the beginning of the war were effected, the cry of unemployment gave way widely to complaints of insufficient labor. Most European labor is today employed, although much of it has been shifted to new pursuits, and in some cases the shift has been effected at the expense of a certain loss of efficiency. In the main, however, it would seem that the shift has been in the direction of greater efficiency on the part of those who have stayed at home. European agriculture, except directly in the war zone, is not materially suffering from the war. Many comforts may be denied those who have stayed at home, the children may be out of school, and the usual family pleasures may be forgotten, but the crops are planted and harvested. The less urgent ordinary vocations and avocations of women, children, and old men are neglected for things of greater immediate economic importance. These people have turned their efforts into field and factory, and are making up for their lack of training and experience by longer hours and less rest days. I was in Switzerland in August, 1914, when the call came for the mobilization of the Swiss troops, and about 500,000 of them went to the frontiers. It was striking to see how the women, children, and old men shifted to the younger men's places and how the important work of the farm went on apparently uninterrupted. Not only man power, but also in many cases horse power, gave way in the fields to woman power, but the crops were gathered promptly and there was little waste.

Psychologists tell us that a rapid metabolism is an efficient metabolism. Many of us do our best work when we are under the strongest pressure; and this is doubtless widely true of the people in belligerent countries today.

War as an Economic Renovator.—Another bright spot in the essentially dark picture of the economic costs of the war is the service that war renders as an economic and social renovator. This war is playing havoc with some bad things as well as with many good things. It is breaking down outworn economic customs, anti-social vested interests, and antiquated methods of production. War clears the decks, as it

were, and in this clearing process there are swept away many things which long since have become obstacles to progress. Many an ugly and antiquated building which has been destroyed by the war will be replaced by a sightly and modern one; many a narrow street will be replaced by a broad one; in like manner the democracy of the trenches will remove many class prejudices to be replaced by stronger bonds of social sympathy between industrial classes. The experience of governments in assuming control of great economic enterprises, as, for example, of the railroads in England, will doubtless afford valuable lessons for the future solution of problems of public regulation and ownership. In this connection it may not be without significance that the largest annual percentage increases in the number of patents issued by the United States Patent Office came immediately after our Civil War.

War Costs Computed in Artificially Depressed Units of Value.—A fact that often gives an exaggerated impression of the economic costs of war is that the monetary units in which war expenses are measured and expressed are usually given, *by war itself*, a subnormal value. In other words we measure our economic costs by a temporarily shortened yard-stick. Various forms of paper money are extensively substituted for gold in general circulation. If this paper is issued in such excess that specie payments are actually or practically suspended, as has been the case in most of our great wars, and appears to be the case in most, if not all, the countries engaged in the present struggle, then prices become the inflated prices of depreciated paper units. But a fact of like significance, although everywhere overlooked, is that the extensive substitution of paper money for gold in general circulation, and the great reduction in the proportions of bank reserves to liabilities, even when they do not result in the suspension of specie payments, nevertheless lead to an abnormal inflation of general prices, i.e., gold prices. Despite the fact that increasing supplies of gold are being piled up in the central bank vaults of the belligerent countries, the percentage of gold to note and deposit liabilities in the banks of Europe is rapidly declining, and the total supply of gold in these countries (including that in banks and in general circulation) is also rapidly falling. Although during the five fiscal years ending June 30, 1914, our gold exports exceeded our imports every year but one, and the average net gold export was 17 million dollars, our net gold imports since January first of the present calendar year have been over 400 million dollars (down to December 1). This is a sum greater than the combined net gold importations of the five previous

fiscal years in American history having the largest net gold importations, and is nearly equal to the world's total gold production in 1913. Such an economy in the use of gold in Europe has an effect on world prices similar to that which would be produced by a temporary doubling of the world's annual gold production. Never in history has any advanced country been so flooded with gold as has the United States during the present calendar year, and the flow of this golden stream to America appears destined to continue for some time. This of course means rising general prices, inasmuch as there has been no proportionate increase in the effective demand for gold. Just as prices as measured in gold rose rapidly in England at the time of the Napoleonic Wars, and in the United States at the time of the Civil War, so gold prices now throughout the world are exhibiting a pronounced upward movement. From July, 1914, to December, 1915, the Economist Index Numbers in England registered an advance of 36 per cent.⁴ On the Continent, it is well known that prices have risen greatly, despite the strenuous efforts of governments to keep them down. For the continental countries, however, since the outbreak of the war, satisfactory price index numbers are not available. In the United States prices have risen rapidly. From July, 1914, to December, 1915, Bradstreet's Index Numbers showed an increased of 23 per cent.

Lest I be misunderstood in my main contention, let me repeat in conclusion that the net economic cost of this war, I believe, will be tremendous; the debit balance will probably be greater than the combined debit balances of all the European and North American wars of the last century; nevertheless the credit items which I have mentioned are very real ones and should not be neglected in any comprehensive statement of the account.

⁴ In the Australian States there has been a great rise in the retail prices of provisions, the index numbers rising, in the various states from 10 to 25 per cent during the period from July, 1914, to May, 1915. Cf. *Monthly Review of the U. S. Bureau of Labor*, December, 1915, p. 45.